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LIMDIS FOR ASST SECRETARY ENDERS

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C O N F I D E N T I A L LIMA 9497

LIMDIS

FOR ARA - ALFRED FISHLOW; L - MONROE LEIGH; EB - THOMAS ENDERS;
TREASURY - JOHN BUSHNELL; CIEP - WAYNE SHARPE; COMMERCE - DAN
ARRILL; S/P - LUIGI EINAUDI

EO 11652: GDS

TAGS: EINV, EIND, EMIN, PFOR, PE

SUBJ: MARCONA - MEETING WITH PRESIDENT MORALES BERMUDEZ

1. AT NOON SATURDAY (NOVEMBER 15) PRESIDENT MORALES BERMUDEZ,
PRIMIN VARGAS PRIETO AND THREE OTHER CABINET MINISTERS (APR,
NAVY, AND COMMERCE) VISITED U.S. PAVILLION AT LIMA INDUSTRIAL
FAIR. I ESCORTED THEM THROUGH THE INDUSTRIAL EXHIBITS AND THEN
TALKED WITH THEM FOR ABOUT FIFTEEN MINUTES. I HAD NOT INTENDED
TO RAISE MARCONA, BUT THE PRESIDENT AND HIS COLLEAGUES IMMEDIATELY
LAUNCHED INTO A DISCUSSION OF THE COURSE OF OUR NEGOTIATIONS.

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2. PRESIDENT, PRIMIN AND MINCOMMERCE ARIAS ALL COMMENTED ON THE DIRECTION AND TONE OF THE WEEK'S NEGOTIATIONS WITH USG TEAM. ALL THREE COMPLIMENTED FISHLOW AND LUIGI EINAUDI IN PARTICULAR FOR THEIR IMAGINATIVE AND CONSTRUCTIVE ROLE IN TRYING TO GET TO A MUTUALLY AGREED FORMULA FOR A SETTLEMENT. MORALES BERMUDEZ ALSO RECALLED HIS LONG-TIME RESPECT FOR EINAUDI'S INTEREST IN PERUVIAN "REALIDAD"; HE SAID EINAUDI HAD ONCE WORKED WITH HIM FOR TWO MONTHS WHEN THE FORMER WAS MINFINANCE. I EXPRESSED COMPLETE AGREEMENT THAT FISHLOW AND EINAUDI HAD WORKED HARD AND HAD EXPLORED TWO POTENTIALLY USEFUL ALTERNATIVE COURSES OF ACTION TO FIND COMMON GROUND BETWEEN THE TWO SIDES, WHICH WOULD TAKE INTO ACCOUNT AND RESPECT THE LAWS AND OTHER REQUIREMENTS OF BOTH GOVERNMENTS. UNFORTUNATELY, THE GOP REJECTED BOTH. THE PRESIDENT AND ARIAS ASSERTED THAT OUR TREASURY DEPARTMENT IS FOLLOWING AN UNDULY HARD LINE IN THE NEGOTIATIONS. ON THIS POINT I REPLIED THAT THE TREASURY POSITION IS AND SHOULD BE A FIRM ONE WHICH GOES BEYOND MARGINAL INTERESTS OF GAINING "X" MILLION DOLLARS MORE IN A SPECIFIC NEGOTIATION TO THE PROTECTION OF VITAL FORMS OF TRANSFER OF CAPITAL AND TECHNOLOGY THROUGH INVESTMENT CAPITAL. I SAID THAT IF WE ACCEPT LESS THAN ADEQUATE COMPENSATION FOR MARCONA WE WOULD BE VERY CONCERNED BY THAT PRECEDENT AND ITS IMPACT ON OTHER MAJOR INVESTMENTS IN PERU AND ELSEWHERE IN THE WORLD. WE ALSO HAD LAWS AND A US POLITICAL REALITY TO SATISFY.

3. THE PRESIDENT THEN SAID HE HOPES THAT USG WILL VIEW THESE NEGOTIATIONS IN THE BROAD FRAMEWORK OF PERU'S OVER-ALL POLITICAL SITUATION. HE SAID HE HOPES THAT DISAGREEMENT OVER A RELATIVELY NARROW RANGE IN THE AMOUNT OF COMPENSATION WILL NOT IMPEDE A SETTLEMENT WHICH THE GOP WANTS AND NEEDS, AND WHICH THE USG, IN SEEKING TO COOPERATE WITH HIS REGIME, WOULD ALSO FAVOR. HE REFERRED TO "THE COMMUNISTS" AS THE ONLY BENEFICIARIES OF ANY BREAKDOWN IN THE MARCONA NEGOTIATIONS. I ASSURED HIM THAT THE USG DOES INDEED WANT TO COOPERATE WITH GOP. AS EXAMPLES I SPECIFICALLY MENTIONED TO MINAIR POGGI THAT EXIM HAD JUST APPROVED A SUBSTANTIAL CREDIT (AND AN ADDITIONAL CREDIT GUARANTEE) FOR THE PURCHASE OF THREE "HERCULES" TRANSPORT AIRCRAFT, AND I TOLD THE MINISTERS OF THE USG "AGREEMENT" FOR CARLOS GARCIA BEDOYA S PERU'S NEW AMBASSADOR IN WASHINGTON. I THEN REEMPHASIZED THAT THE USG DOES WANT TO COOPERATE WITH

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THE MORALES BERMUDEZ GOVERNMENT, AND THAT WE ARE ATTEMPTING TO EXPLORE HOW TO BE IN THE BEST POSITION TO DO SO. AN EQUITABLE SOLUTION TO THE MARCONA CASE IS A NECESSARY FURTHER STEP.

4. ARIAS THEN COMMENTED THAT IN HIS VIEW THE TERMS FOR AN INTERIM ARRANGEMENT REGARDING SALES CONTRACTS CONSTITUTE THE MAIN PROBLEM TO BE RESOLVED IN THE NEXT ROUND OF TALKS. HE ASKED POINTEDLY WHY THE USG WOULD NOT ACCEPT VARGAS PRIETO'S WORD THAT THE GOP

WOULD AGREE TO MAKE REASONABLE COMPENSATION FOR MARCONA, AND MEANWHILE PLACE AN INTERIM SALES AGREEMENT INTO EFFECT. I REPLIED THAT WHILE OF COURSE WE TRUST THEIR WORD WE DO NOT KNOW WHETHER THEIR AUDIT WILL MEET OUR MINIMUM REQUIREMENTS WITHIN OUR OWN LAWS AND POLITICAL AND ECONOMIC REALITIES.

5. VARGAS PRIETO AND I AGREED THAT THE TWO SIDES HAD MADE AN EARNEST EFFORT, AND TWICE HAD COME CLOSE TO AGREEMENT DURING THE WEEK REGARDING A MEMORANDUM OF UNDERSTANDING FOR AN INTERIM SALES AND SHIPPING SYSTEM FOR MARCONA ORES PENDING A FINAL SETTLEMENT. MORALES BERMUDEZ THEN OBSERVED THAT THE GAP IS NARROWING AND THAT HE WAS ENCOURAGED BY THIS DEVELOPMENT. VARGAS PRIETO ALSO SAID THAT SIGNIFICANT PROGRESS HAD BEEN MADE. THE PRESIDENT ADDED THAT SINCE BOTH PARTIES WANT AGREEMENT FURTHER EFFORTS SHOULD BE MADE. ANSWERING THIS POINT I SAID THAT I HOPE THAT AMBASSADOR DE LA PUENTE'S PROJECTED VISIT TO WASHINGTON (AS FISHLOW AND HE HAD DISCUSSED THE PREVIOUS EVENING) SHOULD MAKE A USEFUL CONTRIBUTION TO MAINTAINING A DIALOGUE. I SAID THAT THE USG TEAM, FOR ITS PART, HAD MADE GOOD FAITH, CONSTRUCTIVE SUGGESTIONS FOR FORWARD MOVEMENT OF THE NEGOTIATIONS; THESE HAVING BEEN TURNED DOWN, WE NOW AWAIT FURTHER VIEWS AND SUGGESTIONS FROM THE OTHER SIDE OF THE NEGOTIATING TABLE.

6. COMMENT: AS THE USG TEAM AND I HAD DISCUSSED EARLIER, MY CONVERSATION WITH MORALES BERMUDEZ LEFT ME WITH THE IMPRESSION THAT HE IS NOT UP ON THE PRECISE DETAILS OF THE NEGOTIATIONS, AND HAS DELEGATED PRINCIPAL AUTHORITY FOR OVERALL NEGOTIATIONS TO THE PRIME MINISTER. HE IS, HOWEVER, GENUINELY INTERESTED IN REACHING A SOLUTION AND AWARE OF THE IMPORTANCE THEREFORE OF MAINTAINING A DIALOGUE. I SHOULD ALSO POINT OUT THAT WHILE DE LA PUENTE CLEARLY IMPLIED TO FISHLOW DURING THEIR FRIDAY EVENING CONVERSATION THAT THE FORMER DID NOT SEE ANY FUTURE ROLE FOR MARCONA IN THE CONTEXT OF A SALES AND SHIPPING MECHANISM, ARIAS
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EMPHASIZED THAT THE GOP REMAINS INTERESTED IN A SALES AGREEMENT WHICH COULD SOMEHOW BE TIED INTO A FINAL PACKAGE. APPARENTLY THE MINISTER OF COMMERCE HAS NOT FULLY REJECTED SALES AND SHIPPING ELEMENTS, ALBEIT ONES THAT WOULD NOT INVOLVE ANY DIRECT RELATIONSHIP BETWEEN MARCONA AND THE GOP, INCLUDING MINPECO.
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